



# GAO Standards for Internal Control

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# GAO Standards for Internal Control

- ◆ GAO's Authority to Set Standards
- ◆ Internal Control Objectives
- ◆ Balancing Internal Control Objectives
- ◆ Fundamental Concepts of Internal Control
- ◆ Standards for Internal Control
  - Control Environment
  - Risk Assessment
  - Control Activities
  - Information and Communication
  - Monitoring



# GAO's Authority to Set Standards

- ◆ Public Law 97-255, Financial Managers' Financial Integrity Act of 1982
  - Section 2 "...Internal accounting and administrative controls shall be established in accordance with standards prescribed by the Comptroller General" [GAO]
  - Internal control should provide reasonable assurance that
    - ◆ Obligations and costs comply with law
    - ◆ Funds, property, and assets are safeguarded
    - ◆ Revenues and expenditures are recorded and accounted for to permit reliable reporting



# Internal Control Objectives

- ◆ GAO “Standards for Internal Control in the Federal Government,”
  - internal controls should be designed to provide reasonable assurance that agency objectives are achieved in:
    - ◆ Effective and efficient operations including use of the entity’s resources
    - ◆ Reliable financial reporting including reports on budget execution, and financial statements, and other reports for internal and external use
    - ◆ Compliance with applicable laws and regulations



# Balancing Internal Control Objectives

- ◆ Objectives of internal control are interrelated
- ◆ Means of achieving objectives change over time and circumstances
- ◆ External factors may influence focus on one objective over another
- ◆ Achieving balance requires responding to external factors without losing sight of objectives not object of focus



# Fundamental Concepts of Internal Control

- ◆ A continuous built-in component of operations
- ◆ Effected by people
- ◆ Reasonable assurance



# Standards for Internal Control

- ◆ Control environment
- ◆ Risk assessment
- ◆ Control activities
- ◆ Information and communication
- ◆ Monitoring



# Control Environment

- ◆ Integrity and ethical values
- ◆ Commitment to competence
- ◆ Willingness to take risk
- ◆ Organizational structure
- ◆ Delegation of authority and responsibility
- ◆ Human capital policies
- ◆ Relationship with oversight entities





# Risk Assessment

- ◆ Identify agency objectives
  - Strategic plans
  - Annual performance plans
- ◆ Identify risks to achieving objectives
  - Consider significant interactions
  - Qualitative and quantitative
- ◆ Analyze risks
  - Significance
  - Likelihood of occurring
  - Management approach
- ◆ Include governmental, economic, industry, regulatory and operating conditions



# Control Activities

- ◆ Policies, procedures, techniques, mechanisms
- ◆ Occur at all levels and in all functions
  - IT environment
  - Manual process
- ◆ Diverse activities
  - Approvals
  - Authorizations
  - Verifications
  - Reconciliations
  - Performance reviews



# Information and Communication

- ◆ Financial and operational data
- ◆ Useful, reliable, and continuous recording and reporting
- ◆ Relevant and timely
- ◆ External and internal events



# Monitoring

- ◆ Quality of performance over time
  - Comparison with entity objectives
  - Supervision
  - Comparison with standards
- ◆ Separate evaluation of controls by external parties
  - IG
  - Auditors
  - GAO
  - Study group (internal or contractor)
- ◆ Self-assessments



# GAO Standards for Internal Control

Create Balance

Among Objectives

Within Fundamental  
Concepts

Applying the 5  
Standards